

PENINSULA COMMUNITY LIBRARY

TRAVERSE CITY, MICHIGAN

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2005

PENINSULA COMMUNITY LIBRARY

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Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Peninsula Community Library	County Grand Traverse
Audit Date 6/30/05	Opinion Date 12/8/05	Date Accountant Report Submitted to State: 12/23/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☒ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Kalcher, Vanderwal & Torrey, P.C.			
Street Address 928 S. Garfield Ave. Ste. 3		City Traverse City	State MI
Accountant Signature <i>Kalcher, Vanderwal & Torrey, P.C.</i>		ZIP 49686	Date 12/23/05

**KALCHER
VANDERWAL
& TORREY, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS

DALE L. VANDERWAL, C.P.A.
LEE W. TORREY, C.P.A.
JOHN A. SPRATTO, C.P.A.
DAVID L. RICHARDS, C.P.A., A.B.V.

TRAVERSE CITY
MANISTEE

Of Counsel:
LEONARD R. KALCHER, C.P.A.

INDEPENDENT AUDITOR'S REPORT

December 8, 2005

Board of Directors
Peninsula Community Library
Traverse City, Michigan

We have audited the accompanying financial statements of the governmental activities and the General Fund of Peninsula Community Library as of and for the year ended June 30, 2005, which collectively comprise Peninsula Community Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Peninsula Community Library management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of Peninsula Community Library as of June 30, 2005 and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information (identified in the table of contents) are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

INDEPENDENT AUDITOR'S REPORT - Continued

In accordance with *Government Auditing Standards*, we have also issued a report dated December 8, 2005 on our consideration of the Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Kalcher, Vandenberg & Torrey, A.C.

Certified Public Accountants

**KALCHER
VANDERWAL
& TORREY, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS

DALE L. VANDERWAL, C.P.A.
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TRAVERSE CITY
MANISTEE

Of Counsel:
LEONARD R. KALCHER, C.P.A.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

December 8, 2005

Board of Trustees
Peninsula Community Library
Traverse City, Michigan 49686

We have audited the general purpose financial statements of Peninsula Community Library, as of and for the year ended June 30, 2005, and have issued our report thereon dated December 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Peninsula Community Library's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described below.

The Library was in noncompliance with its operating budget for the general fund.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Peninsula Community Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be a material weakness.

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS (continued)***

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the Board of Directors. However, this report is a matter of public record and its distribution is not limited.

Kalder, Vandermaas & Terry, P.C.

Certified Public Accountants

PENINSULA COMMUNITY LIBRARY
LIBRARY MANAGEMENT'S DISCUSSION AND ANALYSIS

FISCAL YEAR JULY 2004 – JUNE 2005

The MD&A is intended to serve as an overview analysis
of the financial condition and operating results of the library.

Please direct questions regarding this report to:

Victoria Shurly, Library Director
Peninsula Community Library

Mailing Address:
2735 Island View Road
Traverse City, Michigan 49686
231.223.7700

Library Location:
Mapleton Market
14111 Center Road
Traverse City, Michigan 49686

PENINSULA COMMUNITY LIBRARY MANAGEMENT DISCUSSION **AND ANALYSIS CONTINUED**

Relationship of Financial Statements

The basic financial statements contained herein include information that presents two different views of the Library using the modified-accrual and full accrual methods.

The individual fund balance sheet/statement of net assets and liabilities and the individual fund statement of revenue, expenditures and changes in fund balance include information about the Library's General Fund under the modified-accrual method.

The modified-accrual method focuses on current financial resources. The full-accrual method focuses on long-term economic resources and presents a statement of not only how services were financed in the short-term, but also what remains for future spending. Under the former system, capital outlay is an expense. Under the latter system, capital outlay is capitalized as an asset, resulting in a statement of more net profit.

Under the previous system of fund-based statements, the Library has traditionally accounted for compensated absences under Long Term Debt Transactions. Under GASB 34 requirements, these are now reflected under the statement of net assets.

Where appropriate, comparisons have been made to last year's expenditures.

The Library as a Whole

The Library's net assets increased by \$21,602.00 this year over the previous fiscal year. The Library's primary source of revenue is provided by the Traverse Area District Library through an associate library agreement with the District Library to provide library services to the people of Peninsula Township. Under the agreement, the District Library provides an amount not less than .3 mills of the State equalized valuation of taxable property within Peninsula Township to the Peninsula Community Library. This amount is approximately 80% of the year's revenue, up 5% from last year due to an increase in assessed property values. Other major sources of revenue include penal fines, State Aid and patron donations.

Salaries account for the largest expense in the Library's budget, which equates to approximately 56% of total expenditures. This is on a par with last year. Pension plans are offered to the Director and Assistant Director. Employer contributions amount to 13% of covered payroll. No employee contributions were made for the year.

Reimbursement for health insurance is offered to the Director up to \$2400.00 or deferred compensation in the same amount in lieu of health insurance. The Assistant Director is offered reimbursement for health insurance on a pro-rated basis according to hours worked. For the 2004-2005 fiscal year, the director (both retired and present) chose deferred compensation.

The largest non-salary related expenditures are for collection expenditures on books, periodicals and audio-visual materials. These amount to approximately 14% of the budget, as they did in the 2003-2004 fiscal year.

The Library Funds

The Library uses a General Fund to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the Library. Revenues, as noted, are derived mainly from property taxes and other intergovernmental revenues.

The Library's Budgetary Highlights

Over the course of the year, the Library Board of Trustees amended the General Fund's budget to address unplanned needs that occurred during the year. The General Fund amendments reflected a move from the school where the library has always rented space to a local market. Due to the move, which was not originally budgeted for, supplies, rent and miscellaneous expenses were higher than anticipated. Volunteers provided labor and transportation for the move itself, so costs were kept down from what they would have been otherwise. Payroll was also higher than originally budgeted due to the retirement of a director, the hiring of a new one and additional hours required for the move. Mileage was higher than anticipated due to Trustee attendance at an out-of-district state library conference. The search for a director to replace one retiring also created some unexpected expenses.

Revenues were higher than budgeted due to donations, higher property tax assessments (up \$3777.00 from the previous year), larger than anticipated interest earnings and slightly higher penal fund revenues. State Aid was slightly lower than expected.

The Board of Trustees initiated a campaign for donations to the operating fund to cover increased expenses while out of the school. Income from the campaign, *A Campaign For 1001 Donations*, is being reflected as designated net assets, to be used in the 2005-2006 year. Rent to the school for the time the library occupied that space was deferred as a liability, due to a disagreement with the school over how the rent will be pro-rated.

Capital Assets and Long Term Debt Activity

At the end of the fiscal year, the Library had \$152,328.00 invested in land, furniture, equipment, books, and audio-visual materials. The land is currently unimproved upon.

Until May 15th, the Library rented its space from Traverse City Area Public Schools. A temporary move to commercial space was precipitated by a renovation plan at the school.

The Library's long-term debt activity consists of capped accumulated compensation employee absences (sick leave, vacation and personal days) for the Director and Assistant Director. When either of these employees terminates employment, they shall be paid one half of the cumulative sick time not to exceed 30 days. Compensatory and vacation time shall be used by the end of every calendar year with the exception that one week may be carried over into the following year. Compensated absences account for \$765.00 of the fiscal year's long-term debt activity.

Next Year's Anticipated Budget Factors

The Traverse City Area School District is in the process of an extensive renovation of the building where the library had leased its space. A temporary move to a local market has increased rent and supply expenditures. The anticipated completion date for the school is August 15, 2006. However, the possibility exists for a time overrun, which would influence the Library's expenses for next year. Unknown at the present time is the cost of the rent when we return to the school. We have been advised that rent will be higher than it has in the past. It is the mutual intent of both the Library and the school district that the Peninsula Community Library returns to the Old Mission Peninsula School.

PENINSULA COMMUNITY LIBRARY
STATEMENT OF NET ASSETS
JUNE 30, 2005

ASSETS

Current Assets

Cash	\$ 3,709
Due from Peninsula Township	289,089
Accounts receivable - State of Michigan	1,145
Total Current Assets	<u>\$ 293,943</u>

Noncurrent Assets

Rental deposit	\$ 1,000
Capital assets	371,344
Less: Accumulated depreciation and amortization	(219,016)
Total Noncurrent Assets	<u>\$ 153,328</u>

Total Assets	<u>\$ 447,271</u>
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LIABILITIES

Current Liabilities

Accounts payable	\$ 2,644
Accrued compensated absences	859
Total Current Liabilities	<u>\$ 3,503</u>

Noncurrent Liabilities

Noncurrent portion of accrued compensated absences	<u>\$ 765</u>
Total Liabilities	<u>\$ 4,268</u>

NET ASSETS

Invested in capital assets	\$ 152,328
Restricted for facility relocation	970
Unrestricted	<u>289,705</u>
Total Net Assets	<u><u>\$ 443,003</u></u>

The accompanying notes are an integral part of these statements.

**PENINSULA COMMUNITY LIBRARY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

				Governmental Activities
				Net (Expense) Revenue and Changes in Net Assets
<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants/ Contributions</u>	
Governmental activities:				
Library services	\$ 144,897	\$ 1,379	\$ 4,954	\$ (138,564)
General Revenues:				
Intergovernmental:				
District Library				\$ 129,685
State aid				4,580
Penal fines				20,498
Investment income				5,300
Miscellaneous				103
Total General Revenues				<u>\$ 160,166</u>
Change in Net Assets				<u>\$ 21,602</u>
Net assets - beginning of year				\$ 425,948
Prior period adjustment				<u>(4,547)</u>
Net assets - beginning of year - restated				<u>\$ 421,401</u>
Net Assets - End of Year				<u><u>\$ 443,003</u></u>

The accompanying notes are an integral part of these statements.

**PENINSULA COMMUNITY LIBRARY
GENERAL FUND
BALANCE SHEET
JUNE 30, 2005**

Assets

Cash	\$ 3,709
Due from Peninsula Township	289,089
Accounts receivable - State of Michigan	1,145
Rental deposit	1,000
Total Assets	<u>\$ 294,943</u>

Liabilities and Fund Balance

Liabilities

Accounts payable	\$ 2,645
Accrued compensated absences	859
Total Liabilities	<u>\$ 3,504</u>

Fund Balance

Reserved for Board purposes	\$ 970
Unreserved	290,469
Total Fund Equity	<u>\$ 291,439</u>
 Total Liabilities and Fund Balance	 <u>\$ 294,943</u>

The accompanying notes are an integral part of these statements.

**PENINSULA COMMUNITY LIBRARY
RECONCILIATION OF THE BALANCE SHEET OF THE GENERAL FUND
TO THE STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005**

Fund Balance - Total General Fund \$ 291,439

Amounts Reported for Governmental Activities in the Statement
of Net Assets are different because:

Capital assets used in governmental activities are not
financial resources and are not reported in the General Fund:

Governmental capital assets	\$ 371,344	
Less: accumulated depreciation	<u>(219,015)</u>	152,329

Long-term obligations are not due and payable in the current
period and are not reported in the funds:

Long-term portion of compensated absences	<u>(765)</u>
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Net Assets - Governmental Activities	<u><u>\$ 443,003</u></u>
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The accompanying notes are an integral part of these statements.

PENINSULA COMMUNITY LIBRARY
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005

Revenues

District Library	\$ 129,685
State aid	4,580
Penal fines	20,498
Charges for services	1,379
Interest and investment earnings	5,300
Other	4,222
Total Revenue	<u>\$ 165,664</u>

Expenditures

Salaries	\$ 75,178
Life insurance	111
Payroll taxes	5,813
Pension	5,777
Insurance and bonds	4,946
Rental fee	2,500
Books/periodicals	14,920
Education and training	1,336
Audio visual materials	3,798
Membership and dues	2,491
Supplies	3,575
Community promotion and activities	3,900
Contractual services	352
Professional services	5,889
Communications/telephone	1,326
Repairs and maintenance	89
Miscellaneous	1,697
Capital outlay	2,413
Total expenditures	<u>\$ 136,111</u>

<u>Excess Revenues Over Expenditures</u>	\$ 29,553
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Fund Balance - Beginning of Year	<u>261,886</u>
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Fund Balance - End of Year	<u><u>\$ 291,439</u></u>
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The accompanying notes are an integral part of these statements.

**PENINSULA COMMUNITY LIBRARY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

Net change in fund balance - total governmental funds	\$ 29,553
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the costs are allocated over their estimated useful lives as depreciation:	
Expenditures for capital assets	\$ 20,752
Less current year depreciation	<u>(28,664)</u> (7,912)
Losses on dispositions of capital assets are not reported in the governmental funds.	(3,310)
Current year reduction of long-term liability portion of accrued compensated absences is not reported in the governmental funds	2,436
In-kind donations for capital assets are not recorded in the governmental funds if they are held for use	<u>835</u>
Change in net assets of governmental activities	<u><u>\$ 21,602</u></u>

The accompanying notes are an integral part of these statements.

**PENINSULA COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Peninsula Community Library (the Library) was organized in January, 1999. Prior to that date, the Library's operations were reported in Peninsula Township's financial statements. The Library serves primarily the residents of Peninsula Township, Grand Traverse County, Michigan. The Library operates under an elected Board of Directors consisting of six members.

The criteria established for determining the various governmental organizations to be included in the Library's financial statements include oversight responsibility, scope of public service and special financing relationships. Accordingly, the financial statements of the Library contain all Library funds that are controlled by or dependent upon the Library's executive branch.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library's basic financial statements include both the Library as a Whole and its individual fund financial statements.

Government Wide Financial Statements

The Government Wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting, which is described below.

Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The balance sheet includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts - invested in capital assets, restricted, and unrestricted net assets.

The statement of activities includes depreciation on long-term assets and eliminates capital outlay expense.

Amounts reported as program revenue include charges to patrons for the use of various Library assets and replacement, service, and damage fees.

Fund Financial Statements

The Library's individual fund financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting, which is described below.

**PENINSULA COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1 - Summary of Significant Accounting Policies (continued)

Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. All other revenue items are considered to be available only when cash is received by the Library.

The Library reports the following governmental fund:

General Fund - The General Fund is the Library's primary operating fund. It accounts for all financial resources of the Library.

Budgets and Budget Accounting

The Library adopts a budget for its governmental type fund as required by Public Act 621 of the State of Michigan. The Library follows these procedures in establishing the budget as reflected in the financial statements:

1. In January or February, the Library Board prepares a preliminary budget for the ensuing fiscal year.
2. During May, the budget is legally enacted through passage of a resolution. Amendments to the budget are made during the fiscal year, if necessary.
3. The budget is adopted on a basis consistent with the modified accrual method of accounting.

The Library adopted its budget for the year ended June 30, 2005 at its April 12, 2004 meeting and a statement of revenues and expenditures compared to budget for the year is included on page 24. The last amendment to the budget was made on June 27, 2005.

All funds have positive fund balances at June 30, 2005.

**PENINSULA COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1 - Summary of Significant Accounting Policies (continued)

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount budgeted. During the year ended June 30, 2005, the Library incurred expenditures in excess of the amount budgeted as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Over Expended</u>
For the General Fund:			
Membership and dues	\$ 2,000	\$ 2,491	\$ 491

Encumbrance System

The Library does not use an encumbrance system.

Cash and Cash Equivalents

For the purposes of the balance sheet classification, the Library considers all money market accounts and certificates of deposits with maturities of three months or less when purchased to be cash equivalents.

Cash and Deposits

The cash deposits held at financial institutions can be categorized according to three levels of risk.

These three levels of risk are as follows:

- Category 1 Deposits that are insured or collateralized with securities held by the Library or by its agent in the Library's name.
- Category 2 Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Library's name.
- Category 3 Deposits which are not collateralized or insured.

Based on these three levels of risk, all of the Library's cash deposits are classified as Category 1.

**PENINSULA COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 1 - Summary of Significant Accounting Policies (continued)

Capital Assets - Capital assets are defined by the Library as assets with an initial cost of \$ 200 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Leasehold improvements, furniture and equipment, and library books, periodicals, and videos are depreciated using the straight-line method over the following lives:

Leasehold improvements	20 years
Furniture and equipment	5-30 years
Library books and audio visual materials	6 years

Compensated Absences

Employees may use their accumulated compensated absences for vacation, illness, or personal days off. An employee who terminates services will be paid one-half of the cumulative sick time not to exceed 30 days. Compensatory and vacation time shall be used by the end of every fiscal year with the exception that five days may be carried into the following year.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary from those estimates.

**PENINSULA COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 2 - Legal or Contractual Provisions for Deposits and Investments

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act 196, Public Acts of 1998 (effective December 30, 1998), states the Library, by resolution, may authorize the Chief Fiscal Officer to invest surplus funds as follows:

- a. In bonds and other direct obligations of the United States or an Agency or instrumentality of the United States.
- b. In certificates of deposits, savings accounts, deposit accounts, or depository receipts of a bank, but only if the financial institution complies with certain requirements included within the act.
- c. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the date of purchase.
- d. In United States Government or Federal Agency obligation or repurchase agreements.
- e. In bankers' acceptances of United States banks.
- f. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
- g. Mutual funds registered under the investment company act of 1940, title I of chapter 686.54 Stat. 739, 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- h. Obligations described in subdivisions (a) through (g) if purchased through an inter-local agreement under the urban cooperation act of 1967, 1967 PA 7, MCL 124.501 to 124.512.
- i. Investment pools organized under the surplus funds investment pool act, 1982 PA 367, MCL 129.11 to 129.118.
- j. Investment pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150

Certain other restrictions also apply including a requirement for the Board of Directors to formally adopt an Investment Policy that includes specified matters.

**PENINSULA COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 3 - Due From Peninsula Township

Peninsula Township maintains a trust account for the Library and acts as the financial agent of the Library. This trust account had \$ 289,089 of the Library monies as of June 30, 2005.

Note 4 - Capital Assets

Capital asset activity of the Library was as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Adjustments and Deletions</u>	<u>Balance June 30, 2005</u>
Assets Not Being Depreciated:				
Land	\$ 50,000	\$ -	\$ -	\$ 50,000
Other Capital Assets:				
Leasehold improvements	\$ 7,208	\$ -	\$ -	\$ 7,208
Furniture and Equipment	62,716	3,248	2,245	63,719
Library collection	249,525	18,341	17,449	250,417
Subtotal	<u>\$ 319,449</u>	<u>\$ 21,589</u>	<u>\$ 19,694</u>	<u>\$ 321,344</u>
Accumulated depreciation and amortization				
Leasehold improvements	\$ 180	\$ 361	\$ -	\$ 541
Furniture and Equipment	18,960	8,498	2,245	25,213
Library collection	183,048	19,805	9,591	193,262
	<u>\$ 202,188</u>	<u>\$ 28,664</u>	<u>\$ 11,836</u>	<u>\$ 219,016</u>
Net Other Capital Assets	<u>117,261</u>	<u>(7,075)</u>	<u>7,858</u>	<u>102,328</u>
Net Capital Assets	<u>\$ 167,261</u>	<u>\$ (7,075)</u>	<u>\$ 7,858</u>	<u>\$ 152,328</u>

Depreciation and amortization for the year ended June 30, 2005 amounted to \$ 28,664. The Library has only one program and therefore there is no allocation necessary for the Statement of Activities.

**PENINSULA COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 5 - Intergovernmental Revenue

Traverse Area District Library provides an amount not less than .3 mills of the State equalized valuation of taxable property within Peninsula Township to Peninsula Community Library. Peninsula Community Library entered into an associate library agreement with the District Library to provide enhanced library services. Revenue for the twelve months ended June 30, 2005 was \$ 129,685.

Note 6 - Leases

The Library is currently leasing its temporary operating facility from Cutler's Peninsula Grocery for \$ 1,000 per month. The lease term is for a twelve month period ending on May 31, 2006 with monthly extensions available through November 30, 2006.

The Library had been leasing a building from the Traverse Area Public Schools. This building is currently undergoing extensive renovations. Total rental expense for the year amounted to \$ 2,500.

Note 7 - Risk Management

The Library carries coverage for property damage, liability, wrongful acts and crime claims. Also, the Library has purchased from a commercial carrier worker's compensation insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8 - Pension Plan

The Library participates in Peninsula Township's defined contribution (money purchase) pension plan through Manufacturer's Life Insurance Company. The plan covers substantially all employees with the exception of seasonal employees. The amount of covered payroll for the Library for the year ended June 30, 2005 was \$ 42,976. Total payroll for the year ended June 30, 2005 was \$ 75,983. Employer contributions are based upon a percentage of annual payroll. Employees may make additional contributions if they so desire. Employees are vested 100% in employer contributions after 20 months of service.

The Library fully funded its required contribution for the year ended June 30, 2005. Current year employer contributions amounted to \$ 5,777, or 13% of the covered payroll. There were no employee contributions this year.

None of the plan's assets are invested in the Township securities or those of related parties. There are no loans from the plan to the Township.

**PENINSULA COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 9 - Trust Funds

The Peninsula Community Library is the beneficiary of a fund established at the Grand Traverse Regional Community Foundation. No amounts were transferred to the fund by the Library during the year ended June 30, 2005. No income was received from this fund during the year. Total assets in the fund at June 30, 2005 amounted to \$ 56,137 of which \$ 13,730 is available for distribution upon recommendation of a fund advisory board, subject to a variance power held by the Foundation. \$ 42,407 is held in a permanent endowment fund and is not available for distribution. The assets held in the fund are not recorded in the financial statements of the Peninsula Community Library because they are subject to a variance power held by the Foundation which allows the Foundation, in it's sole discretion, to change the beneficiary or withhold amounts from distribution.

Note 10 - Deferred Compensation Plan

The Library offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is administered by the United States Conference of Mayors (USCM) who has designated Public Employees Benefit Services Corporation (PEBSO) to act as its agent. The plan, available to all Library employees, permits them to defer a portion of their salary until future years.

All amounts of compensation deferred, all property and rights purchased, and all income, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust for the exclusive benefit of the participants and their beneficiaries.

Note 11 - Long Term-Debt

Summary of Long-Term Debt Transactions:

	Beginning Balance 6/30/04	Reductions	Ending Balance 6/30/05
Compensated absences	\$ 3,199	\$ (2,434)	\$ 765

Note 12 - Prior Period Adjustment

Beginning net assets have been adjusted for a prior year's understatement of accumulated depreciation – collection and an overstatement of collection value. The adjustment was necessitated due to an unexplained change in the prior year's collection reporting based on the Library's software which tracks this activity. This correction results in a decrease of \$ 4,547 in beginning net assets. The prior year's change in net assets was understated by \$ 449.

**PENINSULA COMMUNITY LIBRARY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Note 13 – Subsequent Event

During December 2005, the Library entered into a lease agreement with Traverse City Area Public Schools for the use of a portion of the Old Mission Peninsula School to be used as an operating location for the Library. Annual rental charges of \$ 6,000 will be payable on or before February 20th of each school year. The agreement shall be effective July 1, 2006 through June 30, 2009 unless written notice of a request to review the agreement is given by either party to the other party by March 15th of each year the contract is in effect.

Note 14 – Fund Balance Reserved for Board Designation

During the 2004/05 fiscal year, the Board designated \$ 970 of general fund monies to be set aside for expenses incurred for facility relocation.

PENINSULA COMMUNITY LIBRARY
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>Revenues</u>				
District Library	\$ 125,860	\$ 125,860	\$ 129,685	\$ 3,825
State aid	2,800	2,800	4,580	1,780
Penal fines	20,000	20,000	20,498	498
Charges for services	1,250	1,250	1,379	129
Interest and investment earnings	3,000	3,000	5,300	2,300
Other	1,000	1,000	4,222	3,222
Total Revenue	<u>\$ 153,910</u>	<u>\$ 153,910</u>	<u>\$ 165,664</u>	<u>\$ 11,754</u>
<u>Expenditures</u>				
Salaries	\$ 75,519	\$ 77,000	\$ 75,178	\$ 1,822
Life insurance	200	200	111	89
Payroll taxes	5,777	5,850	5,813	37
Pension	7,067	7,500	5,777	1,723
Insurance and bonds	5,750	5,750	4,946	804
Rental fee	3,000	5,000	2,500	2,500
Books/periodicals	15,500	15,500	14,920	580
Education and training	1,300	1,400	1,336	64
Audio visual materials	3,800	3,800	3,798	2
Membership and dues	2,000	2,000	2,491	(491)
Supplies	2,500	3,600	3,575	25
Community promotion and activities	3,400	3,950	3,900	50
Contractual services	1,000	1,000	352	648
Professional services	8,300	9,400	5,889	3,511
Contingency	2,000	2,000	-	2,000
Communications/telephone	1,300	1,400	1,326	74
Repairs and maintenance	500	500	89	411
Miscellaneous	850	1,800	1,697	103
Capital outlay	2,500	2,600	2,413	187
Reimbursed expenses	500	500	-	500
Total expenditures	<u>\$ 142,763</u>	<u>\$ 150,750</u>	<u>\$ 136,111</u>	<u>\$ 14,639</u>
<u>Excess Revenues Over Expenditures</u>	<u>\$ 11,147</u>	<u>\$ 3,160</u>	<u>\$ 29,553</u>	<u>\$ 26,393</u>
Fund Balance - Beginning of Year	<u>261,886</u>	<u>261,886</u>	<u>261,886</u>	<u>-</u>
Fund Balance - End of Year	<u><u>\$ 273,033</u></u>	<u><u>\$ 265,046</u></u>	<u><u>\$ 291,439</u></u>	<u><u>\$ 26,393</u></u>